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WESTERN EUROPE — [REDACTED] — INTERNATIONAL ORGANIZATIONS

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Phone: 143-7989

French Cabinet Reshuffled: Soufflet Falls

The French cabinet reshuffle today--the first since Giscard became president last June--has been expected for some time and does not portend a major policy shift.

Outgoing Defense Minister Soufflet has been widely criticized in government and army circles for his lackluster handling of recent unrest among conscripts. A staunch Gaullist, he was said to oppose many of Giscard's policies including, according to press reports, this week's decision to sell military equipment to Egypt. The defense minister's health has also been shaky. A government spokesman denied that Soufflet's departure was linked to policy differences, claiming that it was for purely personal reasons.

The new defense minister, Yvon Bourges, is another veteran Gaullist. He was a deputy foreign minister in three cabinets under President de Gaulle and later became minister of commerce under President Pompidou. Bourges, who holds the Laotian Order of the Million Elephants and the White Parasol, has a reputation for being decisive, efficient and personable.

Bourges will be assisted by General Marcel Bigeard who was named to the new post of secretary of state for defense. Bigeard, a veteran of the French colonial wars, recently criticized the government for failure to deal promptly with draftees demanding better living conditions. A presidential spokesman said Bigeard would concentrate on the status of soldiers and the draft system.

Pierre Lelong was ousted as secretary of state for posts and telecommunications. He had been involved in a running feud with postal employees that led to a six-week postal strike last fall. He was widely condemned for his inept handling of the affair. His replacement, Aymar Achille-Fould, is a centrist deputy in parliament, and a former secretary of state for defense.

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In a move underlining Giscard's campaign to boost exports, Secretary of State for Foreign Trade Norbert Segard was promoted to the rank of full minister. Segard recently negotiated several important multi-billion dollar deals with Middle Eastern oil producing countries.

Former EC Commissioner Jean Francois Deniau was named to the new post of secretary of state for agriculture. Deniau's experience in the community will presumably be called on to safeguard the basic principles of EC agricultural policy while defending French interests in the present controversy among the Nine over farm prices. (Confidential)

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Phone: 143-5135

Prominent Spanish Politician Reportedly Ready
to Form Political Association

Manuel Fraga Iribarne is reported to be ready to form a political association following soundings in Madrid during a visit last week from his post as Spanish ambassador to London. Fraga is, however, holding up any announcement while awaiting a formal response from Prime Minister Arias to his demands for guarantees of freedom of action and other political, economic, and social reforms. It is not clear whether Chief of State Franco is aware of Fraga's intentions but his past reaction to the type of guarantees that Fraga is demanding has been negative.

As a result of his talks with government officials, military officers, and non-government political figures about his plans for a political association, Fraga feels that the government is favorably disposed toward his project.

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[REDACTED] that Arias had privately implied that he was willing to grant Fraga's requests for the guarantees. If these guarantees are forthcoming, Fraga plans to return to Madrid in mid-February where he will make his intentions known at a press conference.

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Prime Minister Arias would like to see someone of Fraga's stature launch an association to lend momentum to Arias' new law permitting associations.

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[REDACTED] week, the participants proposed forming two large associations--a centrist one to be headed by Fraga, and a conservative rightist association whose head was not discussed. Fraga agreed to this, provided his request for guarantees was met.

Fraga reportedly received assurances of support from several influential military officers, including a member of the High General Staff, the chief of the Guardia Civil, and even the deposed chief of the High General Staff who is awaiting reassignment.

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██████████ reported pledges of support from various prominent opposition figures, but these appear to be more expressions of approval that the time is right for Fraga's effort to open up the political situation than pledges to join his association. Once Fraga makes his move, others may launch their own associations. (Secret No Foreign Dissem/Controlled Dissem)

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[REDACTED]
Phone: 143-5205The EC Expands Development Assistance

The EC Commission is laying the foundation for a more generous and comprehensive development assistance policy directed at most of the third world. The effort is an attempt to respond both to the needs of the developing countries hardest hit by soaring food and oil prices and to the pressures of Community members who want to enlarge the horizons of EC aid beyond the original colonial dependencies of EC members.

The Commission has proposed a so-called fresco for community development policy which divides the developing states into four categories according to their level of prosperity and internal economic structure. The 32 "most seriously affected" states, which comprise the first category, would qualify for direct food and financial assistance. The second category of states--those which have begun the process of industrialization--would be targeted for preferential trade agreements.

An export earnings stabilization program has been suggested for those countries whose economies are heavily dependent on the export of one or two commodities. Finally, the Community is considering industrial and technical cooperation agreements for the most prosperous of the developing countries.

The Community's attempt at a coherent approach to development policy results, in part, from UK pressure to compensate commonwealth states for trade losses resulting from UK entry into the EC. The Nine are also highly dependent on the developing countries for raw materials and hope to secure their supplies as well as to expand overseas markets for their own industrial goods.

The most seriously affected developing countries--notably India, Bangladesh, Somalia, and Tanzania--provide the most immediate challenge for the EC. The

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Nine, led by the Netherlands, have recently expressed their increasing concern over the political stability in these countries, whose situation is deemed worse now than had been forecast last fall.

Last year the Community pledged \$500 million in direct assistance as part of a proposed global \$3 billion emergency fund. The oil producers were to provide one half of this fund and the US, the EC and a group of other developed states each were to supply \$500 million in assistance. The EC initially allocated \$150 million to the fund, making the remainder contingent upon similar efforts by the other donor countries.

Since then the oil producers have exceeded their goal and the other countries are making substantial progress toward fulfilling their pledges. Taking this into account, the EC agreed last week upon a second installment of \$100 million toward its half-billion dollar goal and an additional grant of \$50 million in direct food aid. One third of the \$100 million will go to the UN emergency operation administered by Raul Prebisch; the remainder will be distributed directly by the EC Commission.

The EC also decided to credit bilateral aid commitments to their \$500 million goal. Supplemental contributions will be allocated from the EC budget if this goal is not reached by the end of June. The Netherlands, Denmark, Ireland, and the UK opposed the slight of hand involved in including bilateral aid, but the other EC members argued successfully that this would not violate the EC pledge since other donor groups had adopted a similar accounting method.

In developing a comprehensive development program, EC President Ortoli stressed that the oil producers should play a major role in providing direct financial aid. He also advocated the development of a triangular relationship between the money of oil producing states, the needs of the developing states and the technical and industrial skills of the Nine. Algeria and Iran have expressed interest in such arrangements, which would include an aid development bank and a fund for investments in raw material development.

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The EC's more comprehensive development policy will, of course, supplement existing programs, such as the scheme for trade preferences available to all developing countries and the association agreements which are presently being negotiated with the Mediterranean states. This month the EC also hopes to conclude a comprehensive agreement with 46 African, Caribbean and Pacific countries which will incorporate an export earnings stabilization scheme covering nine commodities.

The Nine have also agreed to establish an aid program for those states which are not associated with the Community. Aid to non-associated states has been a major UK objective in its renegotiation talks with the EC. The UK has suggested a commitment of \$800 million, the bulk coming in the form of financial assistance. Although the UK has gained the support of the Netherlands, the Nine remain sharply divided over the size of this fund with most EC members preferring a much smaller commitment. (Confidential No Foreign Dissem)

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